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7 May 1952

Copy No. 53

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CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 63
NO CHANGE IN CLASS. ☒
[] DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE 12-15-78 REVIEWER:

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Department review completed

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FAR EAST

1. Peiping impresses British trade delegates with germ warfare claims:

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British delegates to the Moscow Economic Conference were shown a germ warfare exhibit in Peiping during their visit in April. Some of them apparently are convinced that there is a substantial basis for China's charges against the United States.

The exhibit included instruments of germ warfare, posters showing American press statements on germ research, and recordings of American prisoner-of-war statements. One of the British visitors reportedly believes that Peiping's charges are well founded, on the ground that it is impossible for China to fabricate such evidence. A more cautious member of the group thinks that the Chinese made a prima facie case which requires "serious investigation."

Comment: Although the volume of Peiping's propaganda on germ warfare has diminished somewhat, the Communists continue to press their campaign to win foreign support for their charges.

Some success in the Communists' BW propaganda campaign is evidenced by a 12 April statement in the British leftist weekly New Statesmen and Nation, modifying a former stand that the Communist claims did not even merit further examination.

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Approved For Release 2004/01/16 : CIA-RDP79T00975A000600630001-5

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NEAR EAST - AFRICA

5. Mossadeq wants to use US aid for army salaries:

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Prime Minister Mossadeq has asked Ambassador Henderson if the United States could authorize use of military aid funds to pay Iranian army salaries. Remarking that he

found it strange that a democratic country like the United States was prepared to give guns to the army but not economic aid to the Iranian people, the Prime Minister asserted that military expenditures were an unbearable strain on the budget.

Comment: Iranian officials have been promoting the belief that the recently signed Iran-United States agreement on military aid foreshadowed American economic and financial aid, and it was anticipated that the Prime Minister, who has in the past firmly opposed foreign military assistance, would attempt to use the agreement for his own purposes.

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6. Prime Minister intends to remove "spurious deputies" from new Majlis:

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[REDACTED] Prime Minister Mossadeq told the American Ambassador on 1 May that his first task was to exclude from the new Majlis those deputies who had been elected fraudulently. He proposed to ask that the Majlis expel possibly seven or eight of the 12 or 14 deputies he considered illegally elected. If they were excluded, Mossadeq thought the elections for some 40 or 50 seats, still to be held, would be fair. Otherwise, the vacant seats would be filled by "British stooges."

Comment: Mossadeq has previously expressed the hope that the "true representatives of the people" would reject these deputies. Although he has commented on "illegitimate interference" in elections, it appears that Mullah Kashani, one of Mossadeq's firmest supporters, was the chief offender in manipulating elections to assure victory for his followers.

7. Egypt considers new British proposals unacceptable:

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[REDACTED] [REDACTED] has informed Ambassador Caffery that the new proposals on the Anglo-Egyptian dispute which the British Ambassador brought back from London are unacceptable. The King's adviser stated that Egyptian authorities were extremely disappointed with the proposals but would not reject them immediately.

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The palace official promised that the Egyptian Government would show Caffery a copy of its reply to London before presenting it to the British.

Comment: The Ambassador previously reported that no one in Cairo considered the new British proposals acceptable and that Egyptians were increasingly convinced that the joint discussions would prove futile.

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WESTERN EUROPE

8. British High Commissioner pessimistic on German contract deadline:

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British High Commissioner Kirkpatrick doubts that the Allied-German contractual agreement can be signed on 20 May because of the revisions necessary to solve Chancellor Adenauer's difficulties with his coalition. He mentions 1 June as a more likely date and will propose that the High Commissioners conduct a "probing operation" to ascertain what minimum concessions Adenauer must have.

High Commissioner McCloy warns that provisions in the agreement previously considered settled may be reopened for similar reasons. He states that he cannot estimate how long it will take to settle all outstanding matters, including the revisions.

Comment: Negotiators in Paris and in Bonn are trying to finish drafts of the European Defense Community treaty and the contractual agreement so that the Foreign Ministers can sign them on 20 May. The EDC treaty drafts are expected to be initialled this week. Adenauer still insists that he will be able to sign the contractual agreement on 20 May.

LATIN AMERICA

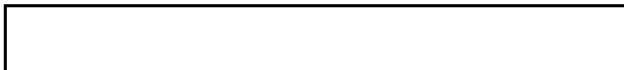
9. Brazilian Foreign Minister fears entire US-Brazilian relationship "at an impasse":

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The American Ambassador in Brazil believes that there will be an early showdown on President Vargas' January decree that foreign exchange remittances of former years be recalculated according to a new, more restrictive formula. A revision of the decree is opposed by a powerful nationalist group which apparently wants foreign investors in Brazil only on its own terms and under its control.

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Foreign Minister Neves da Fontoura has expressed his grave apprehension that the entire US-Brazilian relationship is "at an impasse" because of this issue. He feels that more important things are at stake than the safeguarding of American investment interests in Brazil, and that "the United States should be extremely patient."

He also told the Ambassador that he is much disturbed at reports from all over South America of growing anti-US sentiment.

Comment: Neves da Fontoura is one of the most able and friendly of Latin American diplomats. He and Minister of Finance Lafer have opposed the decree since its promulgation, but have felt that it could be revised if some face-saving solution were found.

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